

VZCZCXRO8280

RR RUEHAG RUEHAST RUEHBI RUEHCI RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK  
RUEHKW RUEHLA RUEHLH RUEHLN RUEHLZ RUEHNEH RUEHNP RUEHPOD RUEHPW  
RUEHROV RUEHRS RUEHSL RUEHSR RUEHVK RUEHYG  
DE RUEHNT #1960/01 3080652  
ZNR UUUUU ZZH  
R 040651Z NOV 09  
FM AMEMBASSY TASHKENT  
TO RUEHC/SECSTATE WASHDC 1487  
INFO ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 03 TASHKENT 001960

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINT](#) [UZ](#)

SUBJECT: UZBEKISTAN: SMEs - ARE THEY ALL THEY'RE CRACKED UP TO BE?

REF: 08 TASHKENT 951

¶1. (SBU) SUMMARY. Small businesses play an important role in the economy of Uzbekistan, a country with the largest labor resources in Central Asia, but the degree to which small to medium enterprises (SMEs) drive the Uzbek economy is not clear. GOU officials repeatedly trumpet the growing role of SMEs as evidence of the progress of their economic reform model. GOU statistics for 2008 claim a 48.2 percent GDP share for SMEs. However, internal inconsistencies in GOU economic reports combined with a large, poorly documented shadow economy make it difficult to determine the extent to which the reported values are an accurate reflection of small business growth. END SUMMARY.

#### SMEs IN THE WORLD AND IN UZBEKISTAN

-----

¶2. (SBU) There is no universal term for what constitutes an SME, although all definitions consider thresholds in terms of a business' employment, turnover, and balance sheet. The European Union standardized SME categories in 2008: a business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro-business. The United States generally uses the term "SMB" -- small and medium business, but the concept is the same: a business with 100 or fewer employees is generally considered small, while one with 100-999 employees is considered to be medium-sized. Globally, SMEs account for 99 percent of business numbers and 40-50 percent of GDP.

¶3. (SBU) In Uzbekistan, SMEs are further subdivided into the following categories -- Individual entrepreneurship: a business conducted by one individual; Micro-firms: businesses with from 5 to 20 employees; and Small enterprises: businesses with up to 100 employees.

#### SMEs GROWING - BUT HOW MUCH?

-----

¶4. (SBU) SMEs' contribution to Uzbekistan's GDP has increased slowly but steadily over the last decade. In 2005, the GOU set a goal of raising the share of the GDP contributed by SMEs to 45% by 2007. According to the State Statistics Committee of Uzbekistan, the GOU met this goal: in 2000, SMEs accounted for 31 percent of GDP with 3 million people employed in the sector. By 2003, SMEs accounted for 35.5 percent of Uzbekistan's GDP and provided 57 percent of the total jobs in the economy. In 2008, the SME share

reached 48.2 percent of GDP, and its share of jobs totaled 72.7 percent. Agriculture accounts for the greatest number of active small businesses. (NOTE: GOU statistics claim the private sector as a whole about 79.4 percent of GDP and provides 78.4 percent of the country's employment. End Note.)

15. (SBU) There are no independent estimates of the role of SMEs in the Uzbek economy, and GOU statistics may actually underreport the true contribution of SMEs to GDP. Small businesses in Uzbekistan have traditionally straddled the line between the legal and grey (shadow) sides of the economy. Open markets, kiosks, pavilions and small shops operating unofficially have considerable retail turnover, and unofficial consumer services (e.g., hair dressers, caterers) also generate income that feed into GDP and which the government statistics may not capture.

16. (SBU) Further complicating the issue, GOU reports are internally inconsistent and indicate the methodology of accounting for SMEs, is, at the very least, not well developed. According to one GOU report, there are 267,658 business entities in the country divided into two categories: state-owned (12.8 percent) and non-state (87.2 percent). Of the non-state sector, 39.3 percent -- or approximately 92,000 -- are considered to be privately owned. Elsewhere, the same report states that there are 219,879 SMEs currently operating in Uzbekistan. Official figures for the SMEs' share of GDP as of September 2009 also differ: some GOU statistics

TASHKENT 00001960 002 OF 003

show the share of SMEs at 40.9 percent while others claim a 6 percent growth in the sector.

#### HISTORICAL DEVELOPMENT OF SMEs IN UZBEKISTAN

17. (SBU) After independence in 1991, the GOU focused on specific industries -- for example, automotive -- that would underpin its import-substitution, export-oriented industrialization policy. This led to the collapse of much of the Soviet-era industrial economy, thereby leaving large segments of the population unemployed or underemployed (reftel). This was particularly true in rural areas. For many, creating a small business became a means of survival.

18. (SBU) Initially, small businessmen were hampered by an inadequate and complicated tax system; excessive, burdensome inspections; corrupt officials; problems with settlement operations in banks; and severe foreign trade restrictions. Beginning in 2005, however, the GOU undertook a number of measures to improve the business climate for small entrepreneurs. New business registration procedures were simplified; complicated tax legislation and procedures were consolidated into one Tax Code; and some administrative barriers were removed.

19. (SBU) Foreign organizations also contributed to improving the business environment for SMEs. The Asian Development Bank (ADB) provided USD 100 million in credit to finance the foreign exchange component of several investment projects in the SME sector. Other major donors, such as the European Bank for Reconstruction (EBRD), UNDP, and USAID, funded various programs focused on developing micro-credit sources and providing SME training for entrepreneurs. Uzbek NGOs, such as the Business Women's Association and the

Tashkent Business Club, are also active in SME development activities.

ITS NOT ALL FUN AND GAMES

-----

¶10. (SBU) Many of Uzbekistan's reforms to benefit SMEs have fallen short of expectations. Introduction of the new Tax Code did not alleviate the heavy burden on SMEs, which continue to pay a large amount of taxes: in 2007, the total tax payments (the sum of all taxes and obligatory payments) for small businesses amounted to 15 percent of annual turnover. (Note: This figure was 18 percent of turnover in 2005.) In other cases, the rules and regulations on protection of small businesses are not implemented in practice. Post hears anecdotal accounts from businessmen who say they must periodically make "unofficial payments" when dealing with taxes, licensing, or gaining access to the public sector.

¶11. (SBU) Other businesses report problems related to restrictions on withdrawal of cash from bank accounts, a problem that is heightened by the periodic unavailability of cash at banks. Although the Uzbek Soum became convertible in October 2003, in practice, unofficial regulations continue to limit access to foreign exchange. International Finance Corporation's (IFC) 2007 survey on the procedures for small business registration also documented a number of continuing registration obstacles, including inspectors requiring the submission of documents not required by law, charging registration fees higher than the legal public registration fees, and forcing entrepreneurs to pay fines for delayed data submission even if the delay was the fault of the registration authorities.

¶12. (SBU) Today in Uzbekistan, export-oriented businesses engaged in manufacturing have the greatest chance of succeeding. Government policies specifically do not encourage private businesses engaged

TASHKENT 00001960 003 OF 003

primarily in import. The World Bank's "Doing Business 2009" survey ranks Uzbekistan 138 among 181 countries, with unfavorable scores for trans-border trade and receiving credit/loans. (Note: Uzbekistan advanced two places from 2008, driven by the development of credit information sharing.) Import contract implementation in Uzbekistan also takes longer than in other Central Asian countries. The GOU, however, continues to make strong statements regarding its commitment to develop entrepreneurship and remove barriers hampering development of business. The GOU has set the ambitious new goal of raising the share of SMEs to 52.5 percent of GDP by 2010, with export-oriented businesses comprising 18.2 percent of the total.

COMMENT

¶13. (SBU) The GOU frequently claims that its policies have encouraged private sector development in general and small businesses in particular; however, the business environment for private entrepreneurs is still far from comfortable. Moreover, although there clearly are infinitely more SMEs in Uzbekistan today than there were in the Soviet era, continued SME growth will require, at a minimum, that Uzbekistan enforce in practice those SME protections already enacted into law.

NORLAND